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25 FEB 1960

MEMORANDUM FOR: Comptroller Policy Planning Group

SUBJECT : Funding Property Procurement in FY 1961

1. PROBLEM:

To improve Agency Property procurement planning and funding

2. ASSUMPTIONS:

- a. The Agency must have better control over the planning, funding and management of property resources before cost based budgeting is 25X1 practicable.
- b. The four technically-cognizant offices, Commo, TSS, Medical and Logistics, will have greater responsibilities for property under cost based budgeting and therefore will require better working tools.
- c. Under a cost based budget system the Agency must assume responsibility for budgeting for funds at the Agency level since offices will budget for the cost of property used. Under the present system and during the transition period we should similarly consider budgeted 08 and 09 funds an Agency asset and control them, as such, at the Agency level.
- d. The new object classification code will classify property by technically cognizant office.

3. FACTS REARING ON THE PROBLEM:

- a. The present property procurement funding system has corrected some of our past difficulties in funding property procurement. It has, however, the following shortcomings:

- (1) Offices tend to retain some 08 and 09 funds as "reserves" thus making procurement planning difficult because of the lack of definite knowledge regarding total planned procurement. Also, the Comptroller is placed in the position of "asking" for the return of funds for procurement.
- (2) Under the present system it is difficult for any office to estimate in advance the amount of property cost authority which is required since only part of the property requirements is subject to property cost authority.
- (3) Reports and analyses of property funding and cost data are difficult to present, complicated to analyze or explain, and confusing to reviewers. This is primarily due to the fact that property funds are divided between eight stock accounts and numerous operating office accounts. It is also due to the fact that part of the property is subject to property cost authority.

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3. (Continued)

(3) and part is not, nor are these distinctions clear-cut concerning individual items.

- b. The obligations and costs pertaining to activities at smaller field stations are, for all practical purposes, identical. Control of costs would effectively control obligations at this level.
- c. The smaller field stations are, in effect, agents of headquarters, receiving detailed instructions and authorizations for all significant activities. Headquarters is therefore a logical allotment and cost control point for such stations.
- d. There appears to be a growing feeling that we should distinguish between fund requirements for stock and for special inventory build-up or stock pile operations. This presents no problem since all procurement actions are approved individually at present and could easily be separated. Recent planning requirements indicate an increasing need also for separating long-lead time procurement needs.

4. DISCUSSION:

- a. If we are to move in the direction of a cost based budget, we should make the maximum use of cost data rather than merely paying lip-service to the requirement by performing a cost collection function only. It follows that we will use cost, rather than obligations, as our principal management tool at the operating level. Under this concept we can raise the level of our allotment and obligation controls and depend upon cost data for details. If this concept is not "bought" we should not be moving in the direction of a cost based budget.
- b. The difficulties experienced by the offices and the Budget Division in estimating the requirement for property cost authority and property funding under the present system, where FPA property (overseas) is subject to property cost authority and non-FPA property is not, has convinced most offices that all property should be an indirect cost, subject to cost authority.
- c. It appears feasible to simplify our property funding controls by taking advantage of machine or computer "automatic" compilation. This can readily be accomplished through the use of "single" stock and special procurement control symbols, Agency-wide but identified by office; for example, an allotment to NE for local procurement overseas would consist of a common basic number followed by the office indicator. Machine reports would consolidate all property obligations including local procurement and thereby supply fund control information. Cost reports would properly reflect cost to the appropriate projects or accounts, thereby supplying data for management purposes.

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4. (Continued)

- d. It is true that action in the direction described above will force more reliance upon cost information and cost controls. Present cost reports must be made as timely as past obligation reports. Perhaps the problem of up-dating field cost data can be met through the accrual studies now in process.
- e. The details of our property budget estimates, having had little basis in fact, have been poor in the past and are likely to improve very slowly under the present system. The nature of our business is such that line item forecasts may always be unreliable, but given actual cost data by cognizant group our property estimates over-all would be more readily explainable. We would also be able to justify, with equal facility, our property obligations and our property issues. Our difficulties in this area are common knowledge.
- f. As we consider procurement of all Agency stocks from commonly identifiable allotments we must consider the mechanics of obligation and cost control. At present, in theory at least, no obligation occurs without being recorded against a field or headquarters allotment. It has been proposed that we might rely upon cost controls for property and to simplify field operations, particularly at small stations, consider the use of open-end allotments. In view of the nature of local procurement, the amounts involved and the fact that costs and obligations are practically identical at small stations, the use of such allotments appears entirely feasible. Area division headquarters now estimate field station obligations; they can as readily estimate property costs, encumbering their own cost authority and establish procedural controls for the unpredictable or unusually large amounts. Our allotment controls would remain, for all practical purposes, completely effective.

5. CONCLUSIONS:

- a. We are committed to cost based budgeting, therefore, it is essential that we begin to budget in that direction. We must decide immediately that each office will budget for property use or cost requirements and identify special and lead-time needs that should be considered in making procurement plans.
- b. We should simplify our procedure by considering all property an indirect cost, subject to cost authority (and not necessarily only that subject to FPA).
- c. We should create "single" Agency procurement account numbers for stock and for special or lead-time procurement and add office or location indicators to this basic symbol when issuing allotments or authority for all property procurement. Thus, we will have the effect of all property being procured from a single account and when the information is consolidated by machine methods we can readily comprehend the total property obligation picture, not just bits and pieces of it.

*to be
verified
and confirmed*

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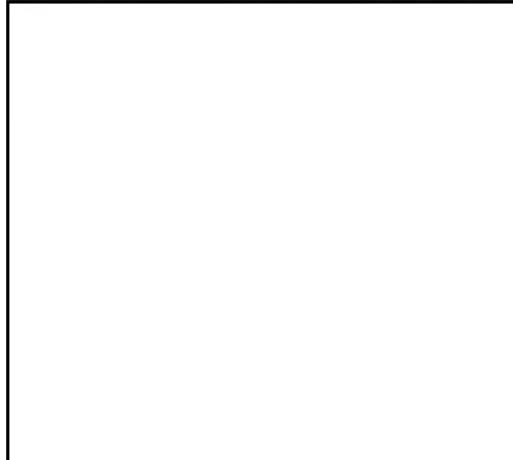
5. (Continued)

- d. Subjecting the issue of all property to the cost authority of appropriate projects or accounts will provide data on use. By applying a sub-object classification identifying the technically cognizant office to both obligation and cost data we will have a factual basis for planning and justifying 08 and 09 obligations and costs.
- e. The use of an open allotment, administered centrally and controlled at operating office level, is feasible although the mechanics of implementation will require careful study. *pw*

6. ACTION RECOMMENDED:

- a. If the above conclusions are valid, it follows that Agency 08 and 09 funds must be centrally administered although allotment and cost controls could be decentralized so far as is practicable, to the point where the encumbrance takes place. It is recommended that:
 - (1) The Comptroller Policy Planning Group review this proposal as early as practicable in order that budget instructions may be issued on a timely basis.
 - (2) The necessary Agency concurrences within the DD/S, DD/I, and DD/P area be secured.
 - (3) A working group or groups be established to study and progressively implement various phases of this change, to discuss them with other Agency components and to develop necessary procedures.

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